MINUTES
AMENDED
Policemen's Pension and Trust Relief Fund
Thursday, October 9, 2008
9:00 a.m.

On Thursday, October 9, 2008, at 9:00 a.m. a meeting of the Board of Trustees of the Policemen's Pension and Relief Fund of the City of Little Rock, Arkansas was held in the Sister Cities Conference Room at City Hall.

PRESENT:	Bruce Moore	-Chairman
	Sara Lenehan	-Treasurer
	Farris Hensley	-Secretary
	Mike Lowery	-Member
	Lee Harrod	-Member
	Brad Furlow	-Member
	Albert Miller	-Member
ABSENT:	None	

Also present were Mr. Larry Middleton, Mr. Alex Jordan, and Mr. Bo Brister of Stephens Capital Management who are Financial Consultants for the Fund, Mr. John Peace and Mr. Dean Overstreet of the Dover Dixon Horne Law Firm, Legal Consultants for the Fund, Mr. Roger Smith, a Government Relation Lobbyists for the Fund, Mrs. Kathy Lindsey, a Pension Fund Administrative Technician, Mr. Rick Wilson and Mr. Stephen Young, retired members of the Fund.

Mr. Moore called the meeting to order at approximately 9:00 a.m., certifying that a quorum of the Board was present, and that the Media had been properly notified in a letter of October 07, 2008 to the Arkansas Democrat-Gazette.

Approval of September Minutes were tabled until the November Meeting due to them being incomplete.

At the May 8, 2008 Police Pension meeting the Board passed a resolution to increase benefits by an amount to be determined through a cash flow study. The resolution was then subsequently forwarded to Arkansas Fire and Police Pension Review Board (PRB), who directed their Actuaries to perform the valuation for determination of a specific monthly amount of benefit increase that the Fund could afford.

Mr. Jody Carreiro, with Osborn, Carreiro, and Associates, Inc. (OCA), was present to provide a report of the above referenced cash flow study. Below is a transcript of his presentation and related discussion.

Jody Carreiro: I know the Board has been provided but I brought some extra copies of the cash flow study and that is the main thing we are talk about. Does anyone need one? Does every one have one?

Lee Harrod: I don't have one. Let me have one.

Jody Carreiro: As everyone knows, we do every other year a regular evaluation for the purpose of determining everything with the Pension Review Board (PRB) and how all of that works together. That evaluation shows we are roughly in the same place, as far as funded percentages, we were 2 years ago.

This report is the cash flow type report that we have done various times over the years to determine whether or not you have the ability to increase benefits. This is all governed by board rule 4 that you have seen before and discussed quite a bit before. It provides for a different method called a cash flow evaluation. I'm sorry if you have heard this a dozen times but it is worth repeating just real quickly. The normal evaluation consists of the assets on hand as of the evaluation date which was December 31 2007; here are the present values of all the liabilities. It doesn't take into account what the future income strengths are or any of those things. It is a good measure but is a snapshot measure. Here are the present values of all the liabilities and here are the assets that we have. Also remember, the board after we gave the mortality study and showed the mortality table being used was pretty outdated. The mortality experience of all the police and fire plans over the past 5 years was more closely associated with a newer table when we don't want to use a table or make up our own; we don't hardly have that much experience. We went to a table that more closely identified mortality experience over the last 5 years. If anybody cares, it is the 1983 group …inaudible… of mortality tables, more of standard pension type mortality tables. We made that change which actually increased liabilities but at the same time, but the Board voted in the December meeting, the PRB voted to stratify the investment assumption so that plans that were earning 6% and above, got a 7% long term assumption of between 4-6 got a find and below 4 got a 3% assumption. To more closely fit the present value of those annuities to what was actually going on from investment standpoint. So that all came in now what the combination of those two items did for plans like you that had good investments earning that you are above that hurdle mark, and the new mortality table, those 2 things kind of cancel each other out. In the evaluation report you had a slight decrease in the present value of liabilities based on those assumptions. I'm sorry; I just had to make a couple of comments about the evaluation.

The difference between that and the cash flow report , instead of saying, ok, here is one single present value number for all of those liabilities is that we take and project out what the projected payouts are each year. We know we started the year with this many people, so we pay them this year and we expect so many people to die, so we reduce that and we pay so many people next year and we continue that on every year as we move out. We also project the income …inaudible… and of course you have millage that is coming in, we have premium tax money that is coming in, you have fines/fees/ forfeitures that come in that fund the plan. So we project those sources of income also. In fact, right past the cover letter is a page that has a one at the bottom and exhibit one at the top, says projection of asset levels one, two, three, and four, about the fifth page back. It says exhibit one at the top projection of asset levels, and on that page we fail what those assumptions are for all of those various pieces. Based on projecting the benefit outflow and projecting those incomes in, we add investment income. Over the years in the past we had added investment income just by using the evaluation assumption rate and projecting that level percent of investment income every year. We did that again because that has kinda been the standard that we've followed, but at the same time we also did something we did for you a little over a year ago, which is, we built this simulation where we took your actual asset allocation as of 1/1/2008, broke that into 7 pieces, and then used mathematical formulas that predicted all those different pieces, and the formulas to take into account there, inter relations and all of those kind of things. With the idea of saying not that we have certainty that 7% every year is a good assumption, but based on our portfolio we know that we should average, in your portfolio as of 1/1/08 based on historical should average somewhere between 6¾% to 7% maybe slightly over 7%, somewhere in that range is where it would average. But instead of using that single rate, we ran it through the simulation which did two thousand different possible outcomes. We looked at each of those over 30 years. Not a single interest assumption here, there is six thousand times ever how many pieces we broke it into, I mean there is a lot of things here, so there is not an assumption, it is more of a stochastic look as opposed to a single point look.

Ok, that's all of the boring background stuff. So I can talk about a couple of things. The main thing is the chart. Because I think if we understand that, that tells us the rest of what we need to graph and that is two pages farther back on what we have.

Sara Lenehan: So are you asking us to look at the one without the $50 or with the $50?

Jody Carreiro: The one that says current plan 1/1/08 simulation of projected assets.

Sara Lenehan: OK.

Jody Carreiro: And this is the plan as it is 1/1/08. Now on here, I graph that 7% every year type line and you can barely see it because it is the green line and the orange line on top of each other in the middle of all the set of lines. That actually makes us feel pretty good, because we have a portfolio that should average about 7%, so the median of all of those simulated results should be right around that 7% line and you notice that they are. They are right on top of each other. That is a good thing so to speak. All the average of all the results is right around the average investment return we are using. So that is a good thing. It lets us know the model seems to be working pretty well. But as we move out from the center green orange line, we have the yellow line which pretty much correlates with what we have done in the past with the hurricane cone where we varied the assumptions and came up with a range of reasonable results. This, instead of me varying the assumptions, the assumptions varied them selves. What that yellow band is the 25th percentile to the 75th percentile. The way to look at that is 50% of all the possible results should fall inside that yellow band. That is good, but that is not exactly what we want. We want to be better than having a 50-50% chance of knowing what is going to happen. We want to be a little more secure than 50-50 chance. So there are other lines there. If you go out one more band, you have blue lines and that is 10th and 90th percentile. The way to look at that is that 10% of the result fall below that bottom blue line. So 10% of the time, things are worst than the bottom blue line. The red line is the 5th and 95th percentile, which in other words, is the way to look at that, to make a judgment, is 5% of the results fall below that red line. Now you notice real quickly, the important thing which is, that the blue line basically bumps zero and the red line goes below zero. The way we calculated it out it was right at 10% of the time. 9.9% of the time, out of all the different scenarios, the plan ran out of funds. Based on the current income strings that are coming in, based on the current benefits that are being paid, and looking the whole world of what might happen in the investment world. 10% of those results ended up with the fund running out of assets. Now, there is not a set thing out there in the world of actuarial science that says, if you use this type of projection you should only run out of money x percent of the time. There is not some set guide for that. But everything that I've read and everything that we have looked at over the last year since we did this the first time, when people do stochastic type projections where they are looking at the probability of all the different possibilities, the risk of ruin should be less than 5%, is what I've seen in practice as to what people are doing. So you don't want the risk of running completely out of funds really to be more than 5%. As of right now, without a benefit increase, your risk of ruin, or your risk of deleting your funds, is right at 10%.

We went ahead and ran the benefit increase just as usually and did the usually things that we do based on the way the rule is written right now. And the bottom line, as I said in the cover letter, I know you have already read this, so I am not going to try to surprise you, but the bottom line is, Rule 4 says you can have a $50 increase. The way Rule 4 is being used and been interpreted over the years. But the rest of the story is, as you see in the report, you have a 10% risk of running out of money as of 1/1/08 if you did the benefit increase that would increase that to 14% chance. Now.

Farris Hensley: And what did you say the standard was?

Jody Carreiro: Everything I have read, you want it less than a 5%, less than 5% risk of ruin.

Farris Hensley: How does that compare, Jody, to say the last benefit increase two years ago, in the same area?

Jody Carreiro: Last year when we did this stochastic type study, the risk of ruin was about 7% before the benefit increase and 12% or 13% after.

Farris Hensley: So about consistent with what this one is as of January 1st?

Jody Carreiro: Right, earnings were 7 were better than, better than the 7% so for that last year, so you took away part of that risk and brought it back down so you were back at 10%. Now we can't do all this without talking about what has been on the news 24 hours a day for the last two months. That is, the route of the investment portfolio right now is not taking one of those upper red or blue lines. It is not in the top 95% line bottom 5 or 10% right now. I reran this and looked at just the results, if you earned zero or less in 2008, as of today. I don't want to speak for Bo or Alex, but right now I think they would do back flip if they knew they could earn zero in 2008 because of what is going on. We know it is down and if we could get back to zero that would be great. That is optimistic so to speak for 2008. If you look only at the 430 out of 2000 results that had a zero or less earning in the first year of the projection, your risk of ruin jumps up to 28%. If you look at only the two hundred and something out of 2000 results that had a 5% loss for 2008, which is a real possibility, without being funny, the risk of ruin goes up to 37% or 38%. What has happened to us is we had a somewhat high risk if ruin, higher than I am comfortable with to begin with, and then because of the market conditions the last 9 months, that risk of running completely out of assets has jumped up considerably.
Here is my final comment recommendation and then we will talk about questions and answers; Rule 4 probably needs to be looked at. That is not the issue for you guys, but I'll just be honest with you, everything I have looked at, is not just your cash flow, but others, I think some things need to be looked at on Rule 4.

Farris Hensley: Jody, just a clarification for everyone, Rule 4 is a Pension Review Board (PRB).

Jody Carreiro: Is the PRB rule that allows a cash flow evaluation. That is kind of a side comment and I will get my thoughts together and discuss that with the PRB, because that is their issue.

Farris Hensley: May I ask you, in what regard do you think it needs to be looked at?

Jody Carreiro: Well again, like I said, I am trying to get my thoughts together but the more I look at this, the plans that I have ran a stochastic type run on like this, we are not dealing with a single interest rates, we are dealing with a range of interest rates. The trouble is, when you, and I guess we will put in the terms we hear over and over for the last two months, when you're fairly highly leverage, that variation on interest rate causes a lot more problems. And in the last evaluation you were 55, 54, what was the number? Sara, do you remember?

Sara Lenehan: It's in that

Jody Carreiro: 54-56% funded?

Sara Lenehan: Yes

Jody Carreiro: Which means you only had assets to cover about half of the liabilities at that point in time. When you have that type of gap, anytime you have fluctuation in the market like we have seen, it hurts you worst than it hurts the guy who is 95% funded. Honestly I don't have a final thing to mention to the PRB yet because I need to think this completely out. What I am thinking is we may need to cut off cash flows to only those that are funded above a certain percent.

Farris Hensley: Well, if you would, please let me know.

Jody Carreiro: Oh I will, I mean that is delicate and important issue and we don't want to do that on a drop of the hat. That's frankly what I am thinking about. And there's one thing from the private sector, that's worth mentioning here too. PPA (Private Pension Act) which has some play for the public sector plans, but one of the things that did deprive the private sector plans, that doesn't directly effect you but is going to be something that people that look at public plans is going to be looking through this eyeglass, so you need to know this, is that there is a new section, section 436, that says if a plan is not 80% funded they can't increase benefits. Is basically what that says. There are levels over 100% you can do all kinds of things, if you are over 80% funded you can do certain things, if you are over 60% funded you can do some things but not everything. If you are below 60% funded, which is where you guys would be right now, the plan is frozen, you can't make any changes, and you can accrue any new benefits. There are all kinds of bad things that happen with that. Again that is public sector,

Sara Lenehan: That's below 60%?

Jody Carreiro: That's below 60%. That does not have a direct impact on what public pension plans do. But I am saying that because you need to know the eyeglasses that say someone from the business world might be looking at when they look at the City and look at what this plan is doing. They are looking through, knowing what is going on in the private sector.

Farris Hensley: Let me ask you in regard to that. Why does that only apply to private sector and not public sector?

Jody Carreiro: That is a good question and never ending question that while I am not sure that I know the answer to. …inaudible… pension law ever since 74 when …inaudible… came in, there has been this strange dichotomy of public and private plans, that there are rules that apply to private plans that don't apply to public plans, and some of them are in the same section of the code and you have to sort out which part is public and which part is private. It makes my life very interesting.

Farris Hensley: All I would ask is that while you are contemplating in what manner to change Board rule 4, is to remember and specifically in regard to, establish in what you just said, establishing a point there, a point of funded, the funded point, and beyond that restricting cash flow studies, just keep one thing in mind, and you correct me if I'm wrong, all the cash flow study process does is, to allow consideration for the reoccurring revenue funding that the fund has and in all likely hood going to maintain.

Jody Carreiro: That's right.

Farris Hensley: With that in mind, the question would be, why not always consider that regardless of the funding level. I'm just throwing that out there.

Jody Carreiro: No, I understand.

Farris Hensley: So you can be thinking about,

Jody Carreiro: And again, probably shouldn't be talking about this before I finish my thought process because it is still going on. I mean the other way to look at it is below a certain funding percentage may be force everybody to do a stochastic type study so you see what all of the results are. And set a level that your risk of ruin has to be below a certain percentage.

Farris Hensley: And Jody, I am not trying to pull an answer out because I appreciate the fact that you share these things with us. On the very onset of a consideration, you don't have to do that and I appreciate you.

Jody Carreiro: I am tiptoeing through that myself.

Farris Hensley: I understand.

Jody Carreiro: So let me just do this and I will see if you have any other questions. Let me be perfectly clear about what the recommendation that I am making today, the recommendation that's in this report. And that is that Board Rule 4, that allows for the cash flow study would allow for a $50 benefit increase. Just like you have done in the past, different times, different amounts. But with the risk of ruin, and in light of the current market conditions, I would strongly recommend against doing any benefit increase right now. You are in a fairly precarious position because of the market forces that in play right now.

Sara Lenehan: So Jody, again you are saying that with a 5% loss for 2008, the risk of ruin for the plan, with the $50 increase, would be between 37-38%?

Jody Carreiro: That was the current plan. Those increase risk of ruins were for the current plan.

Sara Lenehan: No increase, were at 37-38% risk of ruin.

Jody Carreiro: And there is one more risk we haven't talked about. And that is the risk of Drop Account which is twenty four million at the beginning of the year probably about twenty five million now. That are earning 9% this year. But nobody is going to go anywhere this year. But with rates down, that means next year drop rates are probably going to be down and for the next several years, Drop rates are probably going to be down.

Farris Hensley: Now they are already certified for 2008. Which is probably problematic maybe within itself?

Jody Carreiro: Yes, I know. With all of that, you will have an increase risk of ruin if no one takes their money out this year, but then there is a quote of run on the bank because we know that most of that twenty five million dollars could ask for their money today. That would further exacerbate the problem. That is another issue out there for you.

Farris Hensley: But Jody, you are talking about a run on the bank in terms of the drop money?

Jody Carreiro: Yes, that will not happen in 2008, I understand that.

Farris Hensley: Ok, my question is how is that going to exacerbate the problem? Because quite frankly, that would be a blessing at this point. Because we would not have pay out 7% the rest of this year and 9% next year with us looking at negative numbers.

Jody Carreiro: and this may be a better question for Alex, but at some point this market is going to turn back the other way, and we are going to have to get re-invested in the market, and if the drop money is gone, and if you are paying out 6-7 million dollars a year in benefits, you are not going to have the cash flow to get back in the market to experience any of the up side when the up side comes back. You have a plan that is in pay out stage. Six million dollars a year that is going out. If you pay out six million dollars a year and 15 million in drop accounts in 2009, the market starts to behave better in 2009, then they are not going to have the cash to go back into the market and take advantage of that. So a run on the drop accounts would be a bad thing.

Lee Harrod: Jody did you take into account the three million we have coming in each year in property tax,

Jody Carreiro: Yes

Lee Harrod: and one half million in insurance turn back,

Jody Carreiro: Yes

Lee Harrod: and a quarter million coming in there,

Jody Carreiro: Yes

Lee Harrod: You keep talking about payout 6 million on benefits but we have that reoccurring revenue coming in every year too.

Jody Carreiro: Yes, it's all in there.

Lee Harrod: It's all in there? Did you take into consideration? I think it was the last 3 years where the mistake on our investments, where you showed a five and I think we made a ten? There was 3 years there, we brought that to your attention, Farris and I did on a conference call. Did you correct all of that where ya'll made a mistake to show us five and we were actually made a ten? You showed seven and we made eleven.

Jody Carreiro: Let me say for the record, we did not make a mistake. We calculated what we had based on what we received.

Lee Harrod: I'm sorry, were you calculated on what you had but that has been corrected?

Jody Carreiro: Yes, all of the assets are reflected to the best of our knowledge. If all of the assets are reflected everything is in there.

Farris Hensley: Actually it would be self correcting wouldn't it?

Jody Carreiro: Yes sir,

Lee Harrod: Now this is what we are talking about with the cash flow study; this does not take into consideration 2008 at all. It is this past years?

Jody Carreiro: This all starting 1/1/08. What has happened since 1/1/08.

Lee Harrod: Right, right, yea. This is all the years we made money, on this report here?

Jody Carreiro: I'm sorry?

Lee Harrod: This $50 a month is recommended on all the years that we have made money? Now 08, we haven't gotten into this as far as a study on this on this report, have we?

Jody Carreiro: No, the advance of 2008 is not reflected on this report.

Lee Harrod: So if this market came back up, and it probably will, it was back up again this morning, but who knows what 8's gonna be. Who knows what 9's gonna be. No one knows that if we knew that we could really plan the world here.

Sara Lenehan: But, you are saying that with zero growth which again would be fabulous this year and at that point we have a 28% risk of ruin under the existing?

Jody Carreiro: Under the existing,

Sara Lenehan: OK, and if we have a loss of 5%, which again, in light of where the numbers look at the end of September that would be good too. There we have a 37-38% risk of loss or risk of ruin.

Jody Carreiro: That is correct. And Lee we have talked about this just about every year, every year since 01 or 02. That the plan survived 01-02 and we started growing again and things are going well. But I think I have said almost every year that it will be 10 years before the plan can really afford another 01/02.

Lee Harrod: Right

Jody Carreiro: And that is what we are facing. Only 6 years later instead of 10 years later.

Farris Hensley: At least that bad.

Jody Carreiro: At least that bad, right now. Let me say one more thing, I hate to be the bearer of bad news, it's no fun. But a stochastic study like this does not take into account, it merely says here is our projected and how we are going to split up our assets, this much in large capital, this much in small capital, international, bonds, real estate and cash. It does it without looking at minor tweaks you can make along the way. The way and the value that Bo and Alex work to add is the fact that they don't have to stick what the allocation is everyday of the year. They get to vary that a little bit to get to help soften some of the bad blows and take advantage of the good times. So just like you have an allocation you have a projected allocation that you would like to meet and that is what is in this study, is your projected allocation. They are going to play it safe at times like this, and go a little bit on the other side of it when times are good, to try to soften the blows as much as possible. That is what a stochastic study like this can not take into account. There is still a human factor, there are still things to be done that even if your risk of ruin is a third, and there are a lot of things that can be done between now and then to help improve that. I am not pessimistic that everything is just falling apart. What I am saying is, verily clearly is that this is not a good time to give a benefit increase.

Lee Harrod: Well, September you said it was and now you are saying it is not.

Sara Lenehan: No,

Jody Carreiro: No, I did not, I did not, Lee.

Lee Harrod: Well, I'm sorry, correct me.

Jody Carreiro: Ok, read the letter. Page two of the letter, I'm sorry, last paragraph, we found that the current plan still has about a 10% chance of depleting all assets. The plan with the $50 increase has about a 14% chance of deleting all assets. Based on what we have seen, an acceptable level risk of ruin is usually no more than 2.5% to 5%. It should be carefully considered whether, 10% or 14%, are acceptable levels of risk. I never said that those were acceptable; I said I don't think they are acceptable, I said 2.5% to 5% was an acceptable level of risk.

Farris Hensley: Mr. Chairman, with the Boards consideration, I have a suggestion and that is Alex's report kind of goes hand in hand with the decision in regards to this. Before we reach a final decision on this, I would like very much to hear from our financial consultants.

Brad Furlow: Could I ask a question that goes right along with what he is saying? The way I calculate it here, we have approximately thirty million dollars in the pot for everybody, that excludes the Drop. Is that Sara, that's what we talked about this morning? That was before and now we have this certified percentage that we are going to pay out to drop, which I assume is not reflected in your report? When is that going to be done?

Sara Lenehan: When you say the certified percentage, I mean, that happens at the end of the year when we say what percentage. What we say what they are going to earn for the…

Brad Furlow: Well, when is it paid out? In other words, let's just make it real simple, if it's 10%, I know it's not going to be that much but I've heard 9%, ok it's nine percent. That is real close to 10 so for sake of argument, 10% of 24.8 is real close to 25. That's roughly 2.5 million dollars that is going to come from the pot that everybody has to the drop pot. So that means that the pot that we are drawing benefits out of and that we are paying expenses out of is going to be instead of thirty million it's going to be 27.5.

Lee Harrod: Sara, when we get all of our property tax in, it should be about 1.3 million more come November.

Sara Lenehan: Yea, I mean you are going to continue paying benefits as well, but your 50 or 60% of your property tax comes in at the end of the year.

Bruce Moore: We are still on the first item, so why don't we; I am fine with your suggestion, going to Alex and then see if we can make a decision.

Alex Jordan: Let me ask a question before I start. Would you like for me to address Jody's report first or do the report first and then address Jody's because I think its two different explanations, I think?

Bruce Moore: Do the report first.

After Mr. Jordan gives his Stephen's report, the conversation on issuing the benefit increase resumes.

Alex Jordan: Jody's report that he gave to you is pretty much spot on. I can't sit here and give you answers because one thing that I think you hire us and our firm maintains, the firm that we work for, is that we give you answers for prudent measures by the Board to take, both in good times as well as in bad times. If there is anything that I have to say this morning it has to be using the right amount of prudence in the situation that we are in. Nobody has a crystal ball, you can't say we are going to have a rally, unlike 87, when you had a crash and by February everybody got their money back and was actually on the positive side, hopefully that happens, I think this is a lot different. So what Jody has said about the $50 increase, I think everybody is going to be faced over the year of 2009, and probably well into 2010 that they are going to have to make difficult choices, as it relates to every pension plan in this country. Benefit increases and number of different issues. You have to make those difficult choices based on the information you have at hand. The stress on this plan right now, is far greater than obviously any of us thought could possible take place. It can happen. If you look at the standard deviation, the risk of how we have invested it, we have kept it as low as possible still trying to maintain. Jody and I have a lot of conversations about this. From an investment standpoint to try to maintain his hurdle rate or assumed rate you have to have. But, if you take money out of this plan, and I am not going to address the drop issue because it is already there, but if you look at it, 7% this year and 9% next year, in a very difficult recovery of a very deep situation in the market place and the economy overall, that is, we are going to be in a recession. How deep that recession is we can't say. How long we can't say. But it is going to be longer than most of us have experience before. So I think you have to take prudent measures, and sometimes you have to just make tough decisions and say this is the wrong time to do something

From what Jody told you, I can't disagree with anything. And Jody knows I will disagree with him. We have had those disagreements, but he is telling you the straight here on this, and you have to look at it for the rest of your participants and the long term health of this plan. These are usual circumstances, words sometimes don't describe it. I think we need to take every measure that we can to protect the plan in the long term and do the very best and try to make up the shortfall.

Farris Hensley: Looks like we are narrowing down here, I have my first question here is for Mr. Peace. And this issue has come up in the past. I think first of all before we consider what to do, we need to know what the legal options are. And the issue that has come up before is, when we pass this benefit increase resolution, that is what it is, it is a resolution. How legally binding is that where as the City of Little Rock Pension Board Trustees, on May 8th adopt a resolution to increase benefits effective January 1st, how binding is that Mr. Peace, can we actually, it doesn't even take a vote of this Board which it has been, I think it was you, maybe not, may have been the previous legal counsel, but I think it was you, that had said, it doesn't even take a vote to implement it because in effect that is what we done when we passed the resolution, so I guess the legal question is, is that true and can we reverse that at this point? If that's what the Board chose to do.

John Peace: I think you could reverse that. This board, situations change, the situation has changed and I think probably have the fiduciary responsibility to relook at it on the based on the current conditions.

Farris Hensley: Ok
Bruce Moore: I think…

Lee Harrod: I have a question for Jody also.

Jody Carreiro: Yea, I had told Farris my next meeting is at 10:30. If there are any other questions, I'm sorry, I probably talked too long in the beginning and I apologize. Are there any other questions?

Lee Harrod: The question I ask you, how many people are on the pension roll?

Jody Carreiro: You have 335 participants, and that times $600 is around two hundred thousand a year.

Lee Harrod: So we are looking at about $200 thousand extra a year, plus taxes.

Jody Carreiro: Yes, Sir. That's about a 3% increase in benefits.

Farris Hensley: And about how much, this may be a question for you Jody or Sara, I'm not sure, or maybe Stephens Group, how much do we have coming in, in reoccurring revenues verses our annual obligations, including benefits and so forth?

Jody Carreiro: It's in the report, around 3 million of millage, $450 of fines, fees, and forfeitures, and premium tax which varies but it is about one half million. You're right at 4 million; you've got 6.6 million of regular benefit obligations. Not counting drop. Just your monthly benefit obligations. About 6 ½ million a year.

Farris Hensley: By the time everything is said and done, around about the ballpark of around 3 million difference.

Jody Carreiro: Yea, you've got a net outflow of between 2.5 and 3 million.

Farris Hensley: But that is not including all of our general expenses,

Jody Carreiro: Yea,

Farris Hensley: Which would probably bump it up at least a half maybe?

Brad Furlow: Sara could I ask a question? The 1.477 million, negative figure we have here from 2007, do you know what amount of return that we gave Drop and was that figured into that loss?

Mike Lowery: Seven

Sara Lenehan: Yea, I think it was.

Mike Lowery: Drop was seven last year.

Brad Furlow: Ok, so it was seven last year and 2008 it will be 9%.

Sara Lenehan: Nine

Mike Lowery: Nine
Brad Furlow: Ok

Bruce Moore: I would think, John, after reading this resolution that it would just take a motion to rescind the resolution that was passed in May?

John Peace: I think there needs to be some discussion about the fact this says it's to be based on a cash flow study. Now you've got the cash flow study, and the recommendation of the Actuary is no benefit increase, based on that you could rescind …inaudible.

Lee Harrod: I've got one quick request.

Bruce Moore: Ok

Lee Harrod: And this is for Alex and Larry, say this turns around at the end of the year, possibly, who knows, if it turns around some, and we postpone this benefit increase till the end of the year to see how we stand with the market and everything, is that possible? To put this off till the end of the year to find out what our final books are coming in the full, because I hate to go through another expense of another cash flow study if it turns around on us where we did.

Bruce Moore: The thing, obviously board members can make recommendations to see what the vote is, but Lee the thing that stands out to me is that Jody said, just with the current plan at zero which is overly optimistic at this point, we are at a 28% risk of ruin. And again when we did this in May no one could have predicted what, Alex, Larry, Bo, anybody, could have predicted where we would be right now.

Lee Harrod: Sure

Bruce Moore: We've got two very strong recommendations from, one our financial advisor and one that did the study, I am one, and I was supportive of it, but I think our fiduciary responsibility at this point, we really don't have a choice.

Lee Harrod: But my point is, what would it hurt to put it off until the end of the year, where we, could maybe, see where we're back or we may be in worst shape than we are now. We may be a lot better, but then we could maybe vote on it the end of the year. And see because it's two hundred thousand a year, is what it is.

Farris Hensley: I want to comment on what you just said. I guess the options are, options are, is to vote not to implement it, period, and let it die. An option is, to possible not to act on it, basically is what you are suggesting, I think, until later on, a month, two months, to see what happens, and to me is, the validity is what you are suggesting, makes sense to me because you haven't closed up any of your options. First of all, you have accomplished what the first one would do. That's not implementing it, so you haven't lost anything there and what you have gained is you've gained another option. Now what are the chances to this thing turning around here is a short term, probably not good at all. But again what would the chances of everything occurring that has occurred since the first of the year. So we don't know, to me it seems like we have lost nothing by not acting on it versus just not implementing it. Let me close your options.

Alex Jordan: And I don't disagree with what both of you are discussing, but one of the things Jody pointed out from an actuarial sound of standpoint by utilizing cash flow analysis if something changes on that front, where unless, I can't remember the number. Did he give 80%? You have to be 80% funded, they may close that door. I don't know how fast he is going to work on that, but if they purpose something and it obviously goes into effect where you have to be at least 80% funded, no matter whether it is cash flow or any type of analysis, you are not going to get a benefit increase. That door closes so; I think it is fine what you are discussing. I think there is a good chance they are going to push for that. I really do, based on conversations I have had with Jody.

Farris Hensley: Well, and you know I agree. I think your comment as to how fast he will work on it, if my years of experience with Jody is any indication of what he might do in the future, I would almost bet that he will work on it quickly now. With that being said, when it gets to the Pension Review Board, there will be some objection to it, I can assure you, but…

Alex Jordan: Correct

Farris Hensley: but it could very well pass and close up just like you said that door.

Larry Middleton: Lee, I appreciate you trying to keep your doors open here, but if you keep facing these economic analyses on numbers that are far better than we are representing here, the likely hood of your circumstances improving to get that benefit increase is minimal. I recognize trying to keep that door open, and we don't have a crystal ball, but if you will look, this is not just a domestic issue it is a global issue. It is deteriorating and that is why you see the Federal Reserve taking the aggressive action they've taken. They are doing something every single day to try and stop this. We've talked about it for several months, the anticipation that was going to happen we didn't have any idea of degree as Bruce referenced, it was going to be this severe.

Farris Hensley: But let me ask you, Larry, what have we lost?

Larry Middleton: Farris, you have not lost anything.

Farris Hensley: I mean we could still not implement it

Larry Middleton: You've not lost anything, I'm just telling you based on the economic …inaudible…, the circumstance is not going change a lot.

Farris Hensley: I think you're probably right.

Bruce Moore: And I think another point is, and it is also important to remember, is in the letter that the risk of ruin that Jody pointed out, 10 or 14%, we are suppose to be at 5% or below. I think this is something we really have to factor in. We have made this decision, we are at 10 and 14% and we should be under five.

Lee Harrod: One thing I would like to do is, this is the first time I've looked at any of these reports and I have even looked at them as of today before this meeting.

Sara Lenehan: No, they were emailed to us more than a week ago.

Brad Furlow: Yea, we had them.

Lee Harrod: Yea, well this is the first time I've seen them, but I would like to put this off until the end of the year and us review it and I want to study this. I want to review this. I don't see we lost anything by putting this off.

Sara Lenehan: I think we need to make a motion not to implement this increase.

Lee Harrod: If we postpone till the end of the year we haven't implemented it. So we can make that decision when the end of the books come in December, I think we will manage, but I would like more time to study this and look it over and I have some questions for Jody so I will call him.

Bruce Moore: Brad, did you have something?

Brad Furlow: I do, and I know it's probably not something anybody is going to want to talk about, and I want to talk about this issue, and I agree it is a concern to me and I have discussed my concerns with this, but we are talking about two hundred thousand dollars a year here, and it is something we have got to look at and make a decision on. But we have something else coming up even greater. We are talking about two hundred thousand dollars that we need to stop this small blood leak, but we are getting ready to pay 2.5 million on the drop accounts and it don't matter if stock exchange goes to zero and we lose and our equities go to zero we are still going to pay 9% on this 25 million dollars. We've got a bunch of things, we've got loss to our equities in our fund that every body gets their money from. We've got a vote as to whether we are going to add to that by taking two hundred thousand dollars more for a year out that maybe we can vote against and stop, but we've also got 2.5 million dollars that's coming out of that same pot that's going to the other pot that never goes down. So the pot that we are having to watch that every bodies benefits come out of, is taking the hit on all of this and I don't deny the people that are in drop what they have, but we've got to revisit that because we have a floor that this fund can never pay this pot from the pot that we all pull out of. This other pot over here can never be paid less than 4%. It doesn't matter the pot everyone is in losses this 20% one year off the principle, we still have to pay 4% to this pot. That still has to be revisited.

Lee Harrod: I guess my point is, that has nothing to do with this.

Brad Furlow: Well it does.

Sara Lenehan: I'm going to go ahead and make a motion, it doesn't have to get seconded but I am going to make a motion that we rescind the resolution that we adopted on May 8, 2008, in light of the current market conditions, the report we received from our actuary, and the report we received from our financial advisor.

Farris Hensley: Ok, I have a question?

Bruce Moore: Wait, there is a motion. Let's see if there is a second.

Brad Furlow: I will second.

Farris Hensley: I have a question.

Bruce Moore: Farris,

Farris Hensley: Oh, I'm sorry.

Bruce Moore: There is a motion and there is a proper second, and the item is open for discussion.

Farris Hensley: Mr. Peace, it took 75% vote of the board to implement this resolution, does it take 75% of the vote of the board or simple majority to rescind it?

John Peace: I think it will take 75% of the vote.

Bruce Moore: Why is that?

John Peace: I didn't know it took 75% of a vote to implement it.

Sara Lenehan: No, it did not require, it got 75%.

Farris Hensley: It does require a 75% vote of the board to implement it. Requires.

Mike Lowery: Yes.

John Peace: For a benefit increase?

Mike Lowery: Yes.

John Peace: Where is that stated?

Farris Hensley: That is statutory in the drop section. That is the only thing that requires a 75% vote of all votes of pension boards.

Bruce Moore: I think this is important.

John Peace: I can't answer that right off the top of my head, but I will have to do some research on it.

Farris Hensley: Sounds like it will have to be tabled then.

Sara Lenehan: We could take a vote and see.

Mike Lowery: Why would we want to take a vote if we don't even know the legal answer to it?

Sara Lenehan: I am just saying, if it is more than 75%, that was an academic question, if it is less than 75% then, I think we would have to get an answer.

Farris Hensley: Well, it's up to the board, I don't care, and I don't know why we would do something if we don't even know what vote it takes for the board.

Bruce Moore: I think, John, it is a fairly simple question and I know we have books upstairs if you want to go look. But if the statutes says it is 75% to implement a benefit increase then it would be interesting to see what it says, if it even speaks to,

John Peace: It will not speak to
Bruce Moore: I know it. So I don't know how we will determine that it's 75% to rescind a resolution. There is a motion and a second and any other further discussion?

Farris Hensley: Yea. I don't know what the legal answer to that is, but you know what? I haven't even quite frankly made my mind up, for sure, on how I am going to vote on this, I really haven't. Because I have some very serious concerns that every one of you have, plus probably even worst. But it's just like Brad brought up, and like I said in the last meeting, I am a big recipient of drop interest. To a little guy like me, the money I make off that interest is substantial. Ok? But that's big bleeding, that is a gaping wound, we are talking about 2.5 million just next year. Ok, here we are talking about two hundred thousand. Well you know what, the people that have these drop accounts like me, there are much better off; first of all, their pension's are a whole lot more because they have recently retired. Plus they have a big nest egg, which is drop, like me. But these people that this $50 benefit increase goes to, it is the little widows and the guy's that's been retired for 50 years that's drawing $1050 a month. Not two or three thousand dollars a month with a three to seven hundred thousand dollar drop account drawing 9% interest. It is the little widow and that makes this issue so very difficult for me, and that's the reason, quite frankly, I have not figured out whether I am supportive of pulling it off the table or not. And I am not ready, and I understand there are people that have pressing other appointments here. This is just a …inaudible. I have gotten emails from two or three of these widows asking if this market is going to affect that little $50 benefit increase. And I told them I didn't think it would. Because it was a resolution passed, preauthorizing it, it took 75% vote of the board to implement it and now we are thinking maybe it only takes 50% to rescind it. What sense does that make, where is the logic?

John Peace: I think that can be answered with a review of Roberts Rules of Order, it is not going to be in the statutes, I don't think.

Farris Hensley: The 75% vote requiring a resolution to pass is statutorily.

John Peace: I know it. But the question is, whether it takes the same percentage to rescind that action and I wish I had a Roberts Rule of Order.

Bruce Moore: Kathy's gone up to get it.

Sara Lenehan: I would like to say something too.

Bruce Moore: Before you get out of it, Chair takes a form of presence here. It really disturbs me that there is reference to other people's appointments and so forth. I don't think I have said that, I think the person that left had to go to another meeting but I think to imply, Farris, that we are rushing this because of other appointments, I just want to be clear, that no one has said that from my standpoint, since we are sending recordings out of the meetings now, I don't want poor widows to think we rushed through this because someone had an appointment, because from my perspective, I have not heard that. Sara?

Sara Lenehan: What I wanted to say regarding those things, poor widows and all, this risk of ruin is far more fatal to them than this $50 increase, and that's what concerns me. What we are looking at in a much better market at December 31, 2007, a 10-14% risk of ruin and in light of the current market and we are talking about an excess of 25%, I can not, in a fiduciary capacity, not vote to rescind it. I have to vote to rescind it.

Lee Harrod: I think it is going to take 75% to rescind this thing. Cause I don't think you can go back to Roberts Rule of Order, could we do that, we should have Roberts Rule of Order approve it. I think it's going to. And I think its two hundred thousand dollars and I think we need to put this thing off till the end of the year and see how our books come in and make a decision then. Because I think it's going to take 75% of a vote, and I am like Farris, I have not made my mind up yet on how I am going to vote. I am going to wait till the money comes in the end of the year and see. Because I agree with Brad too, on all of this, it doesn't cost anything. It's not hurting anything, if we could just put it off until December 31st, till we see what the final figures is with Larry, Alex, and Bo. I would like to make a decision then; it's only two hundred thousand.

Bruce Moore: The only thing I'm going to response to that is, this resolution very clearly says that, we all know what it says, but to be determined through a cash flow study secured through the Office of the Arkansas Fire and Police Pension Review Board. We've got the study and we had the recommendation, I mean, I don't think Jody, I'm sorry had to leave, but I don't think he is going to change his recommendation by December. I mean we have the study and we heard his recommendation very clearly.

Lee Harrod: He's made a lot of recommendations I don't agree with too.

Bruce Moore: Well.

Lee Harrod: And I just want to make my own mind up, and I want to wait and see what this market does till the end of the year, in my mind to do it. I don't want to vote on it right now because we have already paid a cash flow price for this and I don't see what the hurry is and I mean it is not,

Bruce Moore: OK, any further discussion on …inaudible?

Mike Lowery: Yes, I have a question for Mr. Peace. What happens if we do nothing on this?

John Peace: We have to do something. Because it says you are going to get a cash flow analyze and you have to act on that.

Mike Lowery: So we are either going to vote it down or we are going to vote up or vote to put it off then?

John Peace: One option would be to, there is a motion on the table and the wise would be it would take a simple majority to table that motion till the next meeting, if you want to do that. That would not be putting off till the end of the year; it would be putting it off until November.

Farris Hensley: But there's already a motion on the table?

Mike Lowery: Yea, there's been a motion and a second?

Bruce Moore: I am not an expert on Roberts Rules of Order, but I think we have to deal with the motion, then we will see where we are.

Mike Lowery: OK, let's vote.

John Peace: Someone has to make a motion to table it until the next meeting and that would require a majority vote.

Bruce Moore: But what I'm saying is there is already a motion on the table and are you suggesting that someone could motion in the middle of this motion and make that motion.

Farris Hensley: Man I am confused now.

Bruce Moore: I would like to see a rule on this. So any other questions?

Farris Hensley: Yes, I have a comment. Again, I don't know how for sure I want to vote in terms of implementing this or not. And I just explained what my thoughts are on both sides. I didn't mean to imply, on voice record here, I didn't mean to at all imply that anyone was going to rush through this, I was trying to be courteous and recognize that people, and there is mention of other meetings that people go to at eleven and I was just going to apologize because I feel bad about these meetings taking so long sometimes and in fact, most of the time for staff people. But I am going to vote against this motion and I will tell you why. The first reason is because, I am not sure yet, I'm not sure that I would vote for or against implementing it. I'm not sure to vote to not implement it and let it die. I'm just not sure now. Plus there is some legal issues and I don't feel at all comfortable, I don't know if Mr. Peace does but I don't feel at all comfortable with our legal counsel giving us from the Chair legal opinion on this because it just doesn't make sense that you don't use Roberts Rule of Order to pass a resolution because statutorily it supersedes Roberts Rules of Order thus requiring a 75% vote of the Board but in some how now we can revert back on that very same resolution which is preapproved. The implementation of it and pull it back with just a 50%. That is, just nonsensical to me. Now you may very well be right and you guys are obviously the legal experts, but I do know that there is nothing to be lost, zero to be lost, to wait until November. Nothing. It's not implemented, it's doesn't cost any one anything.

John Peace: To be put off is not to say it can be rescinded by a simple majority vote. I said I don't know, my feeling is that it probably takes 75% but it would take additional research to be able to give you a legal,

Farris Hensley: And that is another reason that we don't need to rush in,

Mike Lowery: I think we need to hold off until Mr. Peace has a chance to look at this and give us a legal opinion from him and I am also like Brad, I don't want to rush into this thing, on this 200 thousand dollars, that don't seem like a whole lot but I am more worried about that two and a half million wound that we are going to have on this 9% payout than I am this $50 increase. So if you are going to rush me into a vote I am going to vote against a motion.

Lee Harrod: I am going to have to agree with Farris and I agree with everything he just said, so I will echo his comments.

Brad Furlow: Ok, could I have my chance to look at that and say here's the thing that also concerns me. If we don't do something to hold off on this $50, I agree with Farris. There are a lot of widows out here that need this $50, but he also talked about those people on the top end, they are going to get that increase also,

Mike Lowery: Oh I agree

Brad Furlow: and we are going to pay 9% on that increase.

Mike Lowery: I agree.

Brad Furlow: So we are talking about an even more critical bleeding that we have got to stop somewhere. Now if we are looking at passing it at the end of the year, so we can have some better discussion on this, then I think that is fine, but something has got to be done.

Mike Lowery: I agree with you.

Farris Hensley: Just one last thing and that is all I have to say on this. This is one of those rare issues, in my opinion, that can be justified either way. I mean it is right, if there is wisdom in voting not to implement it and there is wisdom on the other side and I just don't feel comfortable.

Brad Furlow: Are you saying wisdom, are you saying the two alternatives here is vote it down now or hold off until the end of the year because I think there is any wisdom at all in making this $50 increase at this time. I don't see any wisdom,

Mike Lowery: No, we are not talking about that at all, we are talking about tabling it.

Brad Furlow: OK.

Bruce Moore: I have heard two different things, I have heard somebody say table it until November and I heard Lee say table it until December, or until the end of the year.

Mike Lowery: Table it every month.

Bruce Moore: I think that because we have this study, I think there needs to be some action of this Board, and it might not be to not pass it or rescind it, but I am not willing to just leave this resolution hanging out there, and so I think there needs to be some affirmative action, whether it's to consider it in January or what. I don't think we can just leave this and say we are not going to take any action today. That is my concern.

Lee Harrod: We have a motion on the floor, Sara is that true? Did you second it or how did,

Brad Furlow: I second it.

Mike Lowery: Let's vote on it then.

Bruce Moore: Unless the motioner wants to rescind that motion, I think we have to deal with that, or do you want to withdraw a second?

Brad Furlow: I have an immediate motion whenever we decide this motion, so I will withdraw my second if you want to withdraw your motion or you can make another motion, or I will make another motion that we pass,

Bruce Moore: If you withdraw your second and no one else seconds it, it dies for lack of second because the Chair can't second it. So are you withdrawing?

Brad Furlow: I will withdraw my second.

Bruce Moore: Is there a second?

Al Miller: Second

Farris Hensley: What are we doing?

Sara Lenehan: He withdrew his second, but he seconded it.

Al Miller: We are voting on the original motion.

Brad Furlow: Oh, OK.

Farris Hensley: I don't know what we have done?

Brad Furlow: I'm kind of confused on that too.

Bruce Moore: I ask Brad if he wanted to withdraw his second

Farris Hensley: Second to the motion?

Bruce Moore: Right

Brad Furlow: Which I thought nullified the motion?

Bruce Moore: Someone else can second it, Brad.

Brad Furlow: Ok

Farris Hensley: First of all the motion was made to, we should have a good voice record of this, hopefully, but in the event that something doesn't happen, the motion that was made by Sara to do what exactly?

Sara Lenehan: To rescind the resolution that was passed on May 8th.

Farris Hensley: OK and that motion was seconded by Brad?

Brad Furlow: Right

Farris Hensley: Ok, but why would Brad remove his second if she is not going to remove her first? I guess that's my confusion?

Bruce Moore: Well, he didn't have to, but he decided to.

Mike Lowery: Well, my understanding

Brad Furlow: Well, I guess it would have if there hadn't been another second.
Mike Lowery: It did till Al seconded it.

Farris Hensley: If you are going to withdraw your motion and Al seconded it, if you withdraw your motion, the motion dies for lack of a second.

Sara Lenehan: No, because he provided the second.

Lee Harrod: Do you withdraw your second?

Al Miller: No, because I think we need to vote on it.

Bruce Moore: Now let me say this in all fairness, Kathy went up and got Roberts Rules and now if ya'll will look at real quick but a cursory review by Mr. Carpenter,

Farris Hensley: We never adopted Roberts Rules

Bruce Moore: I've operated by them, I didn't know who didn't.

Farris Hensley: We never adopted them.

Bruce Moore: OK, but go ahead Kathy.

Kathy Lindsey: He said if it had not been brought up before hand, it takes 2/3 of a vote to rescind it.

Mike Lowery: So instead of 75%, Mr. Carpenter says it is 66% now? That's what his legal opinion is?

Kathy Lindsey: That's what he said was in the book.

Mike Lowery: OK, I respect his opinion, but that's what it is.

Lee Harrod: So how many members do we have?

Farris Hensley: To rescind,

Mike Lowery: Yes, takes 66%

Farris Hensley: Takes what now?

Mike Lowery: She said, Mr. Carpenter and his opinion, it takes 2/3 of a vote to rescind it. Which would be 66% but it took 75% to pass it, which I said that was Mr. Carpenter's opinion; I didn't say I agree with his opinion because I don't. And since he doesn't legally represent the pension fund

Farris Hensley: I mean, I respect Mr. Carpenter's opinion

Mike Lowery: Yea, I do too.

Farris Hensley: But he is not legal counsel

Mike Lowery: Nope, he is not.
Bruce Moore: Will you pass this book down to John?

Brad Furlow: The question is,

Bruce Moore: Let's take a 5 minute break

Lee Harrod: All right, that's a good idea

Bruce Moore: and give John an opportunity to look …inaudible.

Bruce Moore: Ok, I am going to call us back to order and call on our legal counsel to give us some guidance on proper way of handling this business.

John Peace: Pursuant to Roberts Rules, which may or may not apply, and I will do some research in the statutes, but pursuant to Roberts Rules a motion to rescind requires prior notice and the 2/3rds vote. And since there's not prior notice that the motion to rescind, I think would have to be put on next month's agenda.

Bruce Moore: OK, with that, I think we would go through the formality of withdrawing a second and a motion.

Sara Lenehan: OK, so I can go ahead and withdraw the motion?

Farris Hensley: Ok, for the record, I want to,

Bruce Moore: Let's go through this process. Sara has withdrawn her motion, Brad has withdrawn, and with that, then, I would like to put on the agenda for November meeting, motion to rescind the benefit increase.

Sara Lenehan: And so does that provide them the notice?

Bruce Moore: It does.

Lee Harrod: Just not postpone it till December but you are making a motion to have it rescinded?

Mike Lowery: He is not making a motion; he is just going to put it up next month.

Bruce Moore: I'm not making a motion, I'm just saying in order for us to deal with it next month, I have to rescind it.

Mike Lowery: then you can vote to table it.

Bruce Moore: It has to be on the agenda and you have to give prior notice. So are we all clear?

Mike Lowery: Yes

Mr. Jordan gave a September 2008 financial report, and said that on September 30, 2008, the market value of the total Fund was $54,871,816.13. Additionally, $886,310.48 was held in the Metropolitan Bank Checking Account. This represents a decrease in the account balance of *($3,830,946.27)* since August 31, 2008. The component of this change was income of $256,707. There were net contributions/withdrawals of *($697,953.34)*. The Funds overall market rate of return for the month of September 2008 was a negative *(5.27%)*, and was negative *(9.63%)* year-to-date through September 30, 2008. On September 30, 2008, $24,884,407.26 was allocated to DROP.

Mr. Jordan reported concerning the financial markets, and said that we so often focus primarily on the equity markets, however much more attention should be focused on the credit markets because much of what has recently occurred in the equity markets has been a direct result of problems within the credit markets. The United States treasury has been attempting to increase liquidity of financial institutions in a number of ways to help ease credit pressures. He compared the relatively recent problems in the financial markets by using an analogy of a one hundred year flood, and said that it is truly a global problem. He said that we will be in a recession, and the primary question is how deep and long in duration it will be. He also explained that sometimes given the information at hand very difficult decisions have to be made, and prudent measures to protect the plan in the long term must always be taken. He told the Board that in an attempt to improve the Funds financial situation to some extent, they will be taking money off the table with active equity managers, and reallocate it to equity index funds. He explained that it should lower expenses, and hopefully improve performance. He asked the Board if there was an interest in reducing the Funds approximate 40% equity allocation, however did not make such a recommendation because “unrealized” losses would then immediately become “realized” losses, and upside potential of a possible future equity market rally would be lost.

During the September meeting, the Board had asked Mr. Jordan to work with Mr. Carreiro to determine the financial impact that the DROP has on the total Fund from both a historical and future analysis perspective.

At the current meeting, Board members agreed that there have been years in the past that the total Fund has made money from DROP accounts, and other years that it has lost, however discussion seemed to focus on the financial impact that a nine percent (9%) DROP interest rate that was recently certified by the State Actuary to be paid during the calendar year of 2009 will have on the total Fund. Once the nine percent (9%) interest is paid on the approximate $25,000,000.00 currently held in Drop accounts it would result in an annual cost to the Fund of approximately $2,500,000.00. An additional consideration was that while paying the approximate 2.5 million dollars interest on the approximate 25 million dollars current held in DROP, losses to the overall fund would be further compounded if the invested assets were losing money in a negative market environment. However, in a positive market environment investment returns on DROP assets can be a financial gain to the overall Fund. Board members agreed that once completed, the above referenced analysis will be helpful in addressing the problem, and to place the matter on the November meeting agenda for further discussion.

Mr. Smith reported concerning legislative matters, and distributed to Board members the two following proposed legislative drafts:

An amendment to the current State Statute, providing specific language allowing stored property to be auctioned via internet sales.

An amendment to the current State Statute to establish an effective date of July 1, 2007, in regard to benefits paid, to former spouses upon the death of a member, via Qualified Domestic Relation Orders (QDRO).

Mr. Peace and all of the Board members were asked to review the drafts for further discussion at the November meeting.

Mr. Smith reported that he had met with the District Judges, and they are moving forward in regard to the issue of suspending driver’s license until outstanding fines are paid. They are requesting funding from the Department of Finance and Administration (DFA) to provide local courts with computers that would enable them to immediately suspend driver’s license when fines are not paid, and to then restore them once fines are fully paid.

Mr. Smith reported concerning an Amendment to the current State Statute to make annual ethics reporting for Municipal Police Pension Fund Board Members consistent with State Ethics guideline reporting for other local, county, and State Boards and Commissions. He said that he had discussed the matter with Mr. Hensley who is chairman of the Arkansas Fire and Police Pension Review Board (PRB), who agreed that the most successful approach would be for the PRB to move forward with sponsorship of the legislative effort.

Mr. Smith reported that the Local Police and Fire Retirement System (LOPFI), Interim Study Committee of which was co-chaired by Mr. Hensley, recently met and approved their final report that will be forwarded to the Legislative Joint Retirement Committee. He (Mr. Smith) said that the report concluded that the primary objective relating to "stand alone" local Police Pension Funds such as Little Rock is to change the funding formula to capture a portion of Insurance Premium Tax money to financially assist Police Pension Funds who wish to voluntarily seek a three percent (3%) compound Cost of Living Adjustment (COLA) merger with LOPFI. He said that many of the plans are under-funded, do not have a cost of living adjustment (COLA), and have never received a benefit increase. Once a plan has merged with LOPFI, cities currently retain county property tax funding which assists in funding their merger cost. When asked, he said that the PRB will be considering legislation that would allow cities to retain other current revenues received such as fines and forfeitures. He told the Board that he would soon be meeting with a Representative of the Governor to discuss the report.

Mr. Hensley told the Board that the September meeting was very lengthy, and that he had been unable to complete the minutes. He said that over the course of time pension meetings have gotten much longer, increasing the time demand for preparation of the minutes, along with many other duties of the Secretary. He asked for additional ongoing assistance from Pension Administrative Personnel in order to continue providing an acceptable level of service to the Funds members. Mr. Moore said that he would authorize pension personnel to temporarily assist with the process until he could meet with Mrs. Lenehan to discuss the matter.

Mr. Overstreet reported concerning the lawsuit in regard to past benefit increases, and said that they have been in discussion with the attorney for the Plaintiffs in regard to stipulation of facts. He said that they have almost concluded the process, at which time a motion or motions can be submitted to the court for ruling as a matter of law, with a summary judgment in regard to the case. His recommendation to the Board was to proceed with the process of seeking a summary judgment, rather than a court trial. Following discussion the Board agreed with Mr. Overstreet and instructed him to continue the process of seeking a summary judgment. The matter was tabled until November.

At approximately 11:30 a.m. Mr. Moore excused himself form the meeting and relinquished the Chair to Mrs. Lenehan.

Mr. Peace reported on the matter concerning ten percent (10%) of probation fees, and said that an Arkansas Attorney General (AG) opinion is still pending, but should be forthcoming. The matter was tabled until November.

Mr. Peace informed the Board that he had reviewed a new Qualified Domestic Relation Order (ODRO) of Mr. Albert Miller, and recommended Board approval. Mr. Hensley made a motion to approve the QDRO of Mr. Miller. The motion was seconded by Mr. Harrod and passed unanimously. The monthly pension for Mr. Miller will now be increased by $45.00 beginning with the October payment, and the sum of $90.00 that was previously held in suspense, will now be released to Mr. Miller.

Mrs. Lenehan submitted copies of the un-audited balance sheet report year-to-date through September 30, 2008. The report indicated that on September 30, 2008, the total account fund balance was approximately $55,880,070.71, of which $24,884,407.26 was allocated to DROP. The net loss for the month of September was *($3,389,699.92*). The net loss year to date through September 30, 2008, was *($8,409,017.92)*.

Also previously submitted were copies of the September 2008 expense and legal fee report. Total expenditures excluding benefit related expenses, were $7,139.95 for the month of September, and $52,607.13 calendar year through September 30, 2008. Legal fee expenditures paid during the month of September 2008 were $4,960.00, and totaled $34,143.79 year to date through September 30, 2008.

The matter concerning a procedure for requesting opinions from the Board's Legal Counsel was tabled until November.

Mr. Hensley made a motion to remove Mr. Troy Jeffcoat who passed away on September 25, 2008 from the pension roll, approve a $6,500 death benefit, and extend the Boards condolences to his family. Mr. Lowery seconded the motion and it passed unanimously.

Mr. Miller distributed copies of the following statement to the Board concerning a response from him, to a statement previously made by Mr. Hensley during the September meeting, regarding an incident that occurred immediately following the August meeting:

I believe it is necessary to respond to the previously distributed version of the "incident" following the Board Meeting from another perspective. I am also confident that those of you who have known me for many years are aware that I tend to be a laid back type and not at all prone to brawling and fighting.

There are some aspects of Mr. Hensley's narrative that I agree with. Parts are in conflict with my observations. Mr. Furlow and Mr. Hensley and were indeed putting up the recording equipment. I stood to the side waiting for a moment to talk to Mr. Hensley. When he appeared available, I approached and stated that he was incorrect in a comment he made during the meeting (the minutes from the meeting of September 11, 2008 actually reflect that I was correct about this.) Mr. Hensley cut me off in mid sentence. I raised my right index finger in an attempt to be heard. This action seemed to infuriate Mr. Hensley. Voices were raised and words were exchanged.

I have recently found out that Mr. Hensley had a death in his family and has had other personal problems and I have decided to just chalk it up to miscommunication on my part and lots of stress on Mr. Hensley's part. I hope that this is the end to the matter and we can go on with the serious business of the Board. Mr. Hensley has served the Board for 22 years and is to be commended for that service.

Upon conclusion of Pension Board business, Mr. Lowery made a motion to adjourn the meeting. The motion was seconded by Mr. Hensley, and passed unanimously. The meeting adjourned at approximately 11:47 a.m.

Respectfully submitted,

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Farris Hensley, Secretary